Lewis Group Limited
Incorporated in the Republic of South Africa
Registration number: 2004/009817/06
Share code: LEW
ISIN: ZAE000058236
Bond Code: LEWI

SHORT-FORM ANNOUNCEMENT:
SUMMARY UNAUDITED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2022.

1. Introduction

Shareholders are advised that the following have been distributed:

- unaudited interim results for the six months ended 30 September 2022 ("results announcement")
- cash dividend declaration of 195 cents per share.

2. Highlights

- Merchandise sales increased by 4.3% to R2.1 billion
- Revenue increased by 4.0% to R3.5 billion
- Gross profit margin at 39.3%
- Debtor costs decreased by 2.2%
- Earnings per share decreased by 0.1% to 341 cents
- Headline earnings increased by 4.4% to R236 million
- Headline earnings per share increased by 19.2% to 393 cents
- Interim dividend maintained at 195 cents per share

3. Results Commentary

Overview

Trading conditions weakened significantly in the second quarter of the group's 2023 financial year as escalating food, fuel and electricity costs, combined with rising interest rates and record high unemployment levels, impacted consumer spending and confidence.

In this environment the group's traditional retail brands of Lewis, Beares and Best Home & Electric have proven more resilient, supported by increased credit sales. Cash sales in particular have been impacted by the inflationary pressures facing consumers, with the biggest impact being felt by the cash retail brand, UFO.

Despite the weakening economic environment, the quality of the group's debtors book continued to improve, with collection rates strengthening, the percentage of satisfactory paid accounts improving and debtor costs continuing to decline.

Trading and financial performance

Merchandise sales increased by 4.3% to R2.1 billion. Sales in the traditional segment increased by 6.5% while UFO reported a decline of 9.5%. The group's comparable store sales increased by 2.9%.

Credit sales grew by 16.4% while cash sales declined by 8.1%, reflecting the pressure on consumer disposable income. The contribution from credit sales has increased to 56.5% of total merchandise sales from 50.6% in the previous half year. During this time, the group has maintained its strict credit granting criteria and has attracted lower risk credit customers, with the application decline rate improving to 35.8% (H1 2022: 39.1%).

Sales in the stores outside South Africa, which represent 15.8% of the total store base, increased by 6.0% and accounted for 18.6% of the group's sales.

The group's store footprint increased to 829 following the opening of a net 10 new stores across all brands, including the first Best Home & Electric store in Lesotho. As part of the ongoing store refurbishment programme, a further 103 stores were revamped.

Other revenue, consisting of effective interest income, insurance revenue and ancillary services income, increased by 3.6%.

Total revenue, comprising merchandise sales and other revenue, increased by 4.0% to R3.5 billion.

The continued disruption in the supply chain and cost pressures from higher freight charges resulted in the group's gross profit margin declining to 39.3% (H1 2022: 40.2%).

In addition to the global shortage of shipping containers and severe port congestion, the local supply chain was further impacted by the floods in KwaZulu-Natal in April 2022 which damaged the critical rail link between the Durban port and Gauteng. This necessitated containers being transported from the Durban port by road freight at significantly higher costs which adversely impacted UFO as approximately 66% of products are imported.

The gross profit margin is expected to improve in the second half and to end the year at the lower end of the targeted 40% - 42% range.

Operating costs, excluding debtor costs, impairments and capital items, were well managed and grew by 5.4%, despite significantly higher fuel costs and increased marketing expenditure to maintain market share in the challenging sales environment.

The health of the group's debtors book continued to improve. The group's enhanced collection practices, supported by the strategy of migrating an increasing number of customers to debit order payments, contributed to collection rates strengthening to 81.7% at September 2022 (H1 2022: 78.7%). The level of satisfactory paid customers improved to 78.8% from 75.2% in the comparative period.

Debtor costs reduced by 2.2% and debtor costs as a percentage of debtors at gross carrying value reduced from 4.7% to 4.5%. The debtors impairment provision as a percentage of debtors at gross carrying value reduced to 38.7% from 42.2% in the prior period.

Operating profit before impairments and capital items declined by 4.1% to R316.4 million. Owing to slower trading in UFO, an impairment of R24.6 million was recognised against goodwill and an impairment of R20.0 million was recognised against its right-of-use assets relating to leased property. Operating profit for the six months declined by 17.1% to R282.8 million.

Earnings decreased by 12.5% to R204.8 million, and earnings per share (EPS) decreased by 0.1% to 341 cents. Headline earnings increased by 4.4% to R235.9 million, with headline earnings per share (HEPS) increasing 19.2% to 393 cents, reflecting the positive leverage effect from the group's aggressive share repurchase programme.

The board has maintained the interim dividend at 195 cents per share.

The group's gearing (including lease liabilities) increased from 15.3% at year end to 24.9% at the end of the interim period as a consequence of the investment in the debtors book, resulting from higher credit sales as well as the higher stock levels maintained, in anticipation of the peak trading period.

Share repurchase programme

The group repurchased 3.8 million shares at a cost of R192.2 million during the six months, at an average price of R50.47 per share. Since the commencement of the current share repurchase programme in 2017, the group has bought back 29.9 million shares at an average price of R34.20 per share. At the annual general meeting in October 2022, shareholders granted management the authority to repurchase a further 10% of the issued share capital.

Outlook

Retail trading conditions are expected to deteriorate further in the months ahead as consumers confront increasing inflationary pressures in the rising interest rate environment. These conditions are being compounded by the weak labour market, increasing industrial action and electricity load shedding, which will continue to disrupt consumer shopping patterns and weaken economic growth prospects.

The group’s business model has proven its resilience and the current management team has led the business through previous economic downturns. In this environment, the group plans to utilise the strength of its credit customer base and differentiated merchandise offering to gain market share. Strong Black Friday and festive season promotions are planned across all brands, with new merchandise ranges and high levels of stock availability.

Management expects the increasing consumer appetite for credit to continue into the second half of the year and is confident that the collections momentum can be maintained, supported by the enhanced collections strategy.

The group will continue to expand its store base despite the difficult trading conditions and remains on track to open a net 16 new stores for the financial year.

Dividend declaration

Notice is hereby given that an interim gross cash dividend of 195 cents per share in respect of the six months ended 30 September 2022 has been declared payable to holders of ordinary shares. The number of shares in issue as of the date of declaration is 58 767 970. The dividend has been declared out of income reserves and is subject to a dividend tax of 20%. The dividend for determining the dividend tax is 195 cents and the dividend tax payable is 39 cents for shareholders who are not exempt. The net dividend for shareholders who are not exempt will therefore be 156 cents. The dividend tax rate may be reduced where the shareholder is tax resident in a foreign jurisdiction which has a Double Tax Convention with South Africa and meets the requirements for a reduced tax rate. The company's tax reference number is 9551/419/15/4.

The following dates are applicable to this declaration:

Last date to trade "*cum*" dividend	17 January 2023
Date trading commences "*ex*" dividend	18 January 2023
Record date	20 January 2023
Date of payment	23 January 2023

Share certificates may not be dematerialised or rematerialised between 18 January 2023 and 20 January 2023, both days inclusive.

For and on behalf of the board

Hilton Saven *Independent non-executive chairman*	Johan Enslin *Chief executive officer*	Jacques Bestbier *Chief financial officer*

Cape Town
24 November 2022

4. **Short Form Announcement**

This short-form announcement is the responsibility of the company's directors and is a summary of the unaudited interim results announcement and does not contain full or complete details. The unaudited interim results announcement can be downloaded from https://senspdf.jse.co.za/documents/2022/jse/isse/LEW/HY23.pdf and on the group's website www.lewisgroup.co.za . The full results announcement may be requested at the company's registered office, at no charge, during normal business hours. Any investment decision in relation to the company's shares should be based on the full announcement.

Cape Town
24 November 2022

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